

VZCZCXRO0854
RR RUEHLMC
DE RUEHLM #0309/01 0590316
ZNR UUUUU ZZH
R 280316Z FEB 06
FM AMEMBASSY COLOMBO
TO RUEHC/SECSTATE WASHDC 2683
INFO RUCPDO/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEHNE/AMEMBASSY NEW DELHI 9298
RUEHKA/AMEMBASSY DHAKA 8950
RUEHIL/AMEMBASSY ISLAMABAD 5837
RUEHKT/AMEMBASSY KATHMANDU 3873
RUEHCG/AMCONSUL CHENNAI 6380
RUEHLMC/MILLENNIUM CHALLENGE CORP

UNCLAS SECTION 01 OF 04 COLOMBO 000309

SIPDIS

SENSITIVE, SIPDIS

STATE FOR SA/INS; STATE PASS TO USTR; MCC FOR D.NASSIRY
AND E.BURKE; TREASURY FOR S.CHUN; COMMERCE FOR E.YESIN

E.O 12958: N/A

TAGS: [ECON](#) [EINV](#) [XD](#) [XO](#) [CE](#)

SUBJECT: SRI LANKA'S PREMIER BUSINESS CHAMBER CALLS FOR
RENEWED FOCUS ON PEACE, IMPROVED HUMAN DEVELOPMENT
PROGRAMS AND BETTER INFRASTRUCTURE

¶1. (U) Summary: Sri Lanka's first "Economic Summit," sponsored in January by Sri Lanka's premier business group, the Ceylon Chamber of Commerce, provided an opportunity for business leaders to discuss their role in vital issues confronting the country such as the peace process and economic development that is highly skewed toward urban areas. Providing economic opportunities to marginalized populations was seen as vital to a durable peace. Nevertheless, the influence of statist parties continues to keep the economy from operating at an optimal level. End Summary.

WELL TIMED SUMMIT - FOR A NEW GOVERNMENT AND FOR PEACE
TALKS

¶2. (U) Sri Lanka's premier business chamber, the Ceylon Chamber of Commerce (CCC), held its first ever Economic Summit titled "Economic Growth towards National Prosperity" in Colombo on January 27-28. The summit, modeled on the World Economic Forum in Davos, Switzerland and the India Economic Summit, presented an ideal opportunity for business leaders to consider their role in resolving crucial problems confronting the country. Held relatively early in the new GSL administration, the Summit enabled new Government leaders to interact with the business community. By coincidence, the summit was also well timed with regard to peace, coming only two days after the Government and the rebel Liberation Tigers of Tamil Eelam (LTTE) agreed to meet in Geneva to conduct talks aimed at enhancing the ceasefire, which had been significantly strained over the past year. The summit had four sessions: finding a durable settlement (peace process-related), economic growth, employee empowerment and invigorating the rural economy.

BUSINESSES THINKING ABOUT ROAD AHEAD FOR PEACE AND
EMPOWERMENT

¶3. (U) Opening the summit, CCC Chairman Deva Rodrigo said the private sector should re-dedicate itself to facilitate peace and reconciliation in Sri Lanka. Rodrigo set the tone for the conference highlighting the highly skewed wealth distribution in Sri Lanka, where 51% of the GDP is concentrated in Colombo and its surrounding Western Province. As a result of this imbalance in economic activity, and as a result of 20

years of civil war, regions outside the Western Province have been excluded from growth. Rodrigo stressed the need to remove inequalities and said there should be opportunities for "talent and hard work" and not "inherited privilege."

A SOUTH ASIAN GROWTH MODEL - MORE REGIONAL TRADE

14. (U) The keynote speaker, Dr Subhasis Gangopadhyay of the India Development Foundation, a research institute in India, discussed his concept of a "South Asian Growth Model." The model, according to Gangopadhyay, included increased intraregional trade, improved agricultural development, improved health and educational opportunities and capital investment. Making a strong push for regional trade and giving examples of how little intra-regional trade was taking place in South Asia, he suggested that improvements in this one area alone could provide the impetus for significant growth throughout the region. He said trade and open economic policies would bring economic liberation to the marginalized and help the region to embrace inclusive and sustainable growth. He said all countries in the region need to improve value addition in the agricultural sector, given the large proportion of people engaged in this sector. He also listed several policy options for South Asia such as better quality and access to secondary and tertiary education, improvements in the health sector and physical capital improvement, which are needed to support all potential economic activity.

GOVERNMENT HOPES OF GROWTH THROUGH TRADE AND INVESTMENT

COLOMBO 00000309 002 OF 004

15. (U) Newly appointed Sri Lankan Board of Investment (BOI) Chairman Lakshman Watawala spoke of economic growth through investment promotion efforts woven around Sri Lanka's bilateral free trade agreements with India and Pakistan, the EU "GSP-plus" program and government infrastructure development projects. According to Watawala, the Government is working on expanding the Indo-Lanka FTA to cover services.

MAJOR FOCUS ON EDUCATION AND SKILL DEVELOPMENT

16. (SBU) There was intense discussion on the urgent need to reform the education system to provide the skills required to fuel economic growth. A university professor with wide experience in dealing with youth said that Sri Lanka's young people do not have the technical and language skills required by the private sector. Charitha Ratwatte (former Treasury Secretary under the United National Party government, now engaged in private sector skills development through Outward Bound), pushed for urgent change in the educational system, saying there is a need to ensure that today's youth are able to participate fully in economic development and replace a rapidly aging workforce. Ratwatte argued that most Sri Lankan children are given a "useless" public education while rich children have access to private education in Sri Lanka and abroad. He suggested "freedom" for the education sector - including removal of exclusive government control over education, and broadening of curriculum options to meet the demands and interests of business and society.

17. (SBU) Ratwatte also advocated for privatization of higher education. (Note: Sri Lankan degrees may only be awarded from government universities. End Note.) He called for a change in some educational methods, commenting that virtually all education involves rote memorization, with no opportunity for analysis, creativity or differences of opinion. In response, private sector CEO's present confirmed the crisis in

education and said that they are unable to provide employment to those thousands trained in liberal arts programs that discourage creativity and analysis; for graduates who obtain their university diplomas but have no marketable skills.

EMPLOYEE EMPOWERMENT - OPEN DIALOGUE

18. (U) In the employee empowerment session, both trade union and employer representatives said that the time had come to change the adversarial relationship between employers and employees into an effective partnership. Both advocated more open communication, trust, truth and transparency as vital ingredients to build partnership. A trade union leader stressed the need for a grass roots level dialog. According to this leader, some employers do not even contemplate partnership with unions or employees, a result of years of past militant behavior by the trade union movement. The human resources director of Unilever Ceylon spoke of his positive experiences adopting an open communication style with his workforce. A university professor stated that the Sri Lankan workforce lives with a great deal of insecurity, both economic and social, due to structural adjustments, globalization, the 20 year civil war and uncertainties surrounding the current ceasefire. The absence of a social security scheme for the unemployed further adds to workers' stress. Therefore, he recommended that changes to labor legislation be done in the larger context of social security. NATURE (Sri Lanka's largest trade union alliance), the Employers' Federation and the National Labor Advisory Council (NLAC) were identified as possible platforms to provide leadership to strengthening the employer-employee relationship.

BUSINESS COULD INVEST IN PEACE

19. (U) In the session titled "Finding a Durable

COLOMBO 00000309 003 OF 004

Solution," Irish and South African experts provided useful insights into business community experience in peace-building and economic development in their respective countries. In South Africa, the business community under the National Business Initiative (NBI) had identified weak points in the peace process and focused on those first. They initiated a peace dialogue which resulted in hundreds of peace committees (with local representatives) throughout the country. The business community facilitated visits by international constitutional experts to help in constitutional drafting and had been a vocal advocate of continued progress during the crucial stages of the peace process.

110. (U) An Irish business leader spoke of an Irish coalition between major businesses (including multinationals in Ireland) and trade unions which is known as the "Group of Seven" to speak collectively in the peace process. He urged the business community to work hard on peace while influencing the government and working with people around the world who want to help. Another Irish expert illustrated a government initiative in Belfast which created a huge factory complex in a Sinn Fein controlled area, which was seen as a catalytic move, triggering investment and helping to build community confidence in Northern Ireland (Note: there is some interest in investing in Liberation Tiger of Tamil Eelam (LTTE)-held areas in Sri Lanka as Tamils are widely considered industrious and creative. But the brutal nature of the LTTE and lack of transparency serves as a major barrier. However, US investment is prohibited because of the LTTE's FTO designation. End Note).

ON INVIGORATING THE RURAL SECTOR

¶11. (SBU) Several top businessmen spoke of their largely positive experiences going into rural areas for production and marketing. Dave Ranasinghe, Director of MAS Holdings, Sri Lanka's largest garment manufacturer, explained how the company pumps millions of rupees (tens of thousands of dollars) into rural economies. In addition to 22,000 factory jobs, MAS has helped raise rural living standards by sourcing transportation services, local produce and meals for the staff from local service providers. Ranasinghe said introduction of quality management systems in the factories have also contributed to raised living standards. In closing, Ranasinghe urged that despite problems such as frequent power outages, bad roads, the breakdown in rule of law and inadequate infrastructure and services to retain top management, there still is a need to go to rural areas to empower the rural population (Note: While Ranasinghe's talk focused on MAS's contributions to the rural sector, it should be noted that most of the garment industry investment in rural areas was at the behest of the GSL in the mid-90s, in exchange for significant tax concessions and other business incentives. End Note).

¶12. (U) Hans Wijesuriya, CEO of Dialog, Sri Lanka's largest mobile telephone operator and a subsidiary of Malaysia Telecom, revealed how a technology services company could succeed by moving into rural areas. Dialog has adopted an inclusive approach, providing a service that is affordable. 1.7 million of Dialog's 2.2 million customers are pre-paid (small) customers. Rural customers, however, contribute 50 percent to company profits. He said that the success of Dialog in rural areas showed that technology is a great social leveler in terms of breaking barriers.

¶13. (U) Directors of several Sri Lankan conglomerates, with substantial rural presence through agriculture, also spoke of their experiences and the need for businesses to move into rural areas. Rajan Yatawara, head of Hayleys, one of the largest companies in Sri Lanka, showcased the company's successful "out-grower" (contract farming) system that includes guaranteed

COLOMBO 00000309 004 OF 004

purchase of produce and provides inputs, entrepreneurship development and extension services. The CEO of the state-owned information technology agency spoke of ongoing efforts to take IT to rural areas for socio-economic development.

WISH LIST TO THE GOVERNMENT

¶14. (SBU) Commenting on the government's role in the economy, most speakers agreed that the government should become an enabler of business. Their wish list to the government includes improving education (including privatization), building infrastructure (including rural infrastructure), transparency in government processes, fiscal responsibility, reversal of the oppressive tax and levy regime and establishing better rule of law. For agriculture, they sought Government support for consistent policies, tax concessions, credit facilities, technology support, farmer training and greater state-private sector cooperation in R&D.

¶15. (SBU) COMMENT: While some CCC members in the audience, in private conversations with Embassy staff, expressed doubt that the various proposals would result in significant changes to GSL economic policies, we believe that the CCC has the clout and is responsible enough to try to work on at least some of the issues. CCC is the most powerful business chamber in the

country. It has a direct impact on government policy making (e.g., its chairman is a member of the powerful Monetary Board of the Central Bank). Several members also sit on the National Council for Economic Development (NCED), which advises the Government on economic policy. According to CCC sources, the organization is preparing an action plan based on the summit and identifying issues to be addressed by the CCC and those to be referred to the Government. We hope the CCC will play a more dynamic role in the peace process, taking a cue from the South African and Northern Ireland experiences. The CCC had launched a sub-committee on peace and reconciliation a few days before the summit. Following the summit, the Federation of Employers of Ceylon (with strong connections to the CCC) and trade unions have started to discuss their roles in bringing economic prosperity to war affected communities.

¶16. (SBU) Comment Cont'd: With regard to issues like education reform, the CCC faces an uphill battle given the current Government's statist tendencies and close relationship with a major Marxist-Nationalist party. The President's Economic Advisor, Nivaard Cabraal, during his presentation, was quite candid when he said changes in education would be difficult and would take a long time. Consequently, education will not be a near-term "equalizer" granting greater opportunity to the "have nots." Private sector expectation of a more responsible government is also illusive. The roles of the private sector and the government were aptly illustrated by a foreign guest speaker who said "the purpose of industry is to create wealth. It is not, despite belief to the contrary, to create jobs. The jobs are created from the wealth that industry produces." In Sri Lanka, where even some private sector players tend to look to the Government as the main source of solutions for societal ills, this straightforward message needs to be heard. END COMMENT.

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